

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL OF NALEDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Naledi Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion

Basis for disclaimer of opinion

Consumer debtors and other receivables

4. Despite attempting alternative procedures, I was unable to obtain sufficient appropriate audit evidence of the completeness, valuation and existence of and the rights pertaining to consumer debtors and other receivables to a net amount of R1218376 (2010: R18 348055) as disclosed in note 3 to the financial statements, due to the following:
 - a) The municipality did not provide me with sufficient appropriate evidence to support a difference of R12 466 425 between the debtors listing and the general ledger. Consequently, I was unable to confirm the valuation and completeness of consumer debtors and other receivables. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - b) I was unable to obtain sufficient appropriate audit evidence as to the existence and valuation of consumer receivables amounting to R1 218 376 (net balance) as disclosed in note 3 to the financial statements, as I could not obtain evidence that subsequent payments were made by consumers after year-end or that consumers had indigent or payment arrangements applications.

- c) The municipality did not provide me with sufficient appropriate evidence to support receipts and payments used to calculate VAT payable/refundable on VAT 201 forms. Consequently, I was unable to confirm the valuation and completeness of VAT refundable. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
- d) Comparative figures relating to consumer debtors and other receivables were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R11924631 by which consumer debtors and other receivables was restated. In the absence of appropriate evidence, I could not confirm the correctness of adjustments to the comparative figures.

Provision for bad debts

- 5. I was unable to obtain sufficient appropriate audit evidence of the completeness and valuation of the provision for bad debt. In the absence of appropriate audit evidence, the municipality's records did not permit the application of alternative procedures to confirm the appropriateness of the judgement used to calculate the provision of R48 645 416 (2010: R34 069 330) as disclosed in note 3 to the financial statements.
- 6. The municipality did not provide me with sufficient appropriate evidence to support a difference of R34 378 935 between the general ledger and the financial statements. Consequently, I was unable to confirm the completeness and valuation of allowance for bad debts. Inadequate record management system of the municipality did not permit alternative procedures to be performed.

Property, plant and equipment

- 7. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness, valuation, existence of and rights to property, plant and equipment amounting to R174 399 905 (2010: R171 641 068), as disclosed in note 6 to the financial statements, due to the following:
 - a) The fixed asset register did not contain adequate descriptions, unique identification and location to confirm completeness and existence. The assets amounting to R142 597 300, which were selected from the asset register and traced to the floor for physical verification, could not be verified for existence because the assets were not properly described and bar-coded.
 - b) The municipality did not provide me with sufficient appropriate evidence to support a difference of R140 079 495 between the general ledger and the financial statements. Consequently, I was unable to confirm the completeness and valuation of property, plant and equipment. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - c) The National Treasury has, in terms of Accounting Standard Board directive 4, granted the medium- and low- capacity municipalities a transitional provision for property, plant and equipment. This transitional provision from the financial reporting framework was not been disclosed in the accounting policies set out in note 6 to the financial statements.
 - d) Comparative figures relating to property, plant and equipment were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R137 188 681 by which property, plant and equipment was restated. In the

absence of appropriate evidence, I could not confirm the correctness of adjustments to the comparative figures.

Trade and other payables

8. Despite attempting alternative procedures, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation of and obligations pertaining to trade and other payables amounting to R58 613 309 (2010: R52 416 489), as disclosed in the note 11 to the financial statements, due to the following:
 - a) The municipality did not provide me with sufficient appropriate evidence to support a difference of R390 213 between the register of deposits and the general ledger. Consequently, I was unable to confirm the existence, completeness, valuation of and obligations pertaining to trade and other payables. Deficiencies in record management system of the municipality did not permit alternative procedures to be performed.
 - b) The municipality did not provide me with invoices and creditors statements to support trade and other payables amounting to R30 677 505. Consequently, I was unable to confirm the existence, valuation of and obligations pertaining to trade and other payables. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - c) Comparative figures relating to conditional grants were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R2 827 273 by which the trade and other payables were restated.
 - d) The municipality did not provide me with sufficient appropriate evidence to support the credit balance of suspense account amounting to R17 207 986. Consequently, I was unable to confirm existence, valuation of and obligations pertaining to trade and other payables. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - e) The municipality did not provide me with sufficient appropriate evidence to support a difference of R22 952 017 between the general ledger and the financial statements. Consequently, I was unable to confirm existence, valuation of and obligations pertaining to trade and other payables. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - f) An amount of R 1 869 411 in respect of conditions met on conditional grants was not transferred to revenue. Consequently, trade and other payables are overstated and revenue is understated by R 1 869 411.
 - g) The municipality did not provide me with sufficient appropriate evidence to support a difference of R36 989 224, relating to unspent conditional grant, between the financial statements and the general ledger. Consequently, I was unable to confirm the existence, completeness, valuation of and obligations pertaining to trade and other payables. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.
 - h) The municipality did not provide me with sufficient appropriate evidence to support a difference of R1 182 627, relating to unspent conditional grant, between the grant register and the general ledger. Consequently, I was unable to confirm the existence, completeness, valuation of and obligation pertaining to trade and other payables. Inadequate record management system of the municipality did not permit alternative procedures to be performed.

Long-term liability

9. I was unable to obtain sufficient appropriate audit evidence to confirm the existence, valuation, completeness of and obligations pertaining to a loan amounting to R537 281 (2010: R650765) due to non-submission of loan agreements, monthly statements or correspondence with funders and minutes of the meetings. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.

Revenue

10. Despite attempting alternative procedures, I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, completeness, accuracy and classification of revenue amounting to R75 346 193 (2010: R51 711 151) as disclosed in the statement of financial performance, due to the following:
 - a) The municipality did not provide me with invoices and receipts amounting to R4 666 049. Consequently, I was unable to confirm the accuracy, occurrence and completeness of revenue. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.
 - b) The municipality did not provide me with sufficient appropriate evidence to support journals amounting to R1 180 729 relating to revenue. Consequently, I was unable to confirm the accuracy, occurrence and completeness of revenue. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - c) The municipality did not provide me with sufficient appropriate evidence to support a difference of R851 268 between the general ledger and register of prepaid electricity. Consequently, I was unable to confirm the accuracy, occurrence and completeness of revenue. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - d) Revenue generated from sale of electricity between 23 June 2011 and 30 June 2011 was not recognised as revenue in the accounting records for the period under review, resulting in an understatement of both revenue and receivables. Due to deficiencies in the record management of the municipality, I could not quantify the resulting understatement.
 - e) An amount of R1 040 218 received from the service provider selling electricity on behalf of the municipality was not recorded as revenue, resulting in understatement of revenue by R1 040 218.
 - f) An amount of R 4 368 034 received by the municipality as a grant was not recorded as revenue, resulting in understatement of revenue by R 4 368 034.
 - g) An amount of R203 908 received by the municipality for rented properties was not recorded as revenue, resulting in understatement of revenue by R203 908. I also could not confirm the completeness and accuracy of revenue from rented properties due to lease agreements for these properties not being submitted for the audit.
 - h) The municipality did not provide me with sufficient appropriate evidence to support a difference of R664 271 between the general ledger and the trial balance. Consequently, I was unable to confirm the accuracy and completeness of revenue. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - i) Comparative figures relating to revenue were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R1 115 004 by which the revenue was restated. In the absence of appropriate evidence, I could not confirm the correctness of adjustments to the comparative figures.

Expenditure

11. For the reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the occurrence, completeness, classification, cut-off and accuracy of expenditure of R63 627 353 (2009: R20 932 238) in the statement of financial performance, due to the following:
- a) An amount of R564 271 for revenue earned when meeting conditions of conditional grants was incorrectly allocated to expenditure, resulting in an understatement of both expenditure and revenue.
 - b) The municipality did not provide me with invoices and contracts to support expenditure amounting to R1 509 630.3. Consequently, I was unable to confirm the accuracy, occurrence and completeness of expenditure. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.
 - c) A VAT amount of R167 764 paid on qualifying expenses was not allocated to the VAT account, resulting in expenditure being overstated and receivables understated by R167 764.
 - d) The municipality did not provide me with sufficient appropriate evidence to support journals amounting to R50 732 relating to expenditure. Consequently, I was unable to confirm the accuracy, occurrence and completeness of expenditure. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - e) An amount of R1 338 171 paid by the service provider for buying electricity on behalf of the municipality was not recorded as expenditure, resulting in understatement of expenditure by R1 338 171.
 - f) The municipality did not provide me with sufficient appropriate evidence to support a difference of R290 263 95 between the general ledger and the financial statements. Consequently, I was unable to confirm the accuracy, occurrence and completeness of revenue. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.
 - g) An amount of R855 895 recognised by the service provider as bad debts for electricity debtors was not recorded as expenditure by the municipality, resulting in understatement of expenditure and overstatement of debtors by R855 895.
 - h) Although the municipality is on an accrual basis of accounting, expenditure transactions are recorded when payment is made instead of being recorded when goods and services are received. Consequently, I cannot confirm the completeness of expenditure. Inadequate record management system of the municipality did not permit alternative procedures to be performed.
 - i) Comparative figures relating to expenditure were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R2 661 897 by which the expenditure was restated. In the absence of appropriate evidence, I could not confirm the correctness of adjustments to the comparative figures.

Employee-related cost

12. The municipality did not provide me with sufficient appropriate evidence to support employee costs amounting to R205 539. Consequently, I was unable to confirm the accuracy, occurrence and completeness of employee costs. Inadequate record

management system of the municipality did not permit alternative procedures to be performed.

13. Comparative figures relating to employee cost were restated and the municipality did not provide me with sufficient appropriate evidence to support an amount of R652 993 by which employee cost was restated. In the absence of appropriate evidence, I could not confirm the correctness of adjustments to the comparative figures.
14. The municipality did not provide me with sufficient appropriate evidence to support a difference of R625 250 between the general ledger and the financial statements. Consequently, I was unable to confirm the accuracy, occurrence and completeness of revenue. Inadequate record management system of the municipality did not permit alternative procedures to be performed.

Capital commitments

15. The municipality did not provide me with sufficient appropriate evidence to support a difference of R2 224 969 between the schedule of commitment and contracts. Consequently, I was not able to obtain sufficient appropriate audit evidence to confirm the completeness, valuation and occurrence of capital commitments. The municipality's records did not permit the application of alternative audit procedures.

Irregular expenditure

16. During the audit, several instances to an amount of R1 285 733 were noted where the municipality did not comply with the requirements outlined in the Municipal Supply Chain Management Regulations and was not disclosed in the note to the financial statements as required in terms of section 125(2)(d) of the MFMA .. Furthermore, due to limitations placed on my audit of expenditure, I was also unable to confirm the completeness of irregular expenditure disclosed in note 26 to the financial statements.

Fruitless and wasteful expenditure

17. I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy, completeness of and compliance relating to fruitless and wasteful expenditure of R2 320 607, as disclosed in note 26 to the financial statements, as required in terms of section 125(2)(d) of the MFMA.
18. During the audit, several instances to the amount of R470 610 were noted where the municipality incurred expenditure in vain resulting in fruitless and wasteful expenditure and this amount was not disclosed in the note to the financial statement as required in terms of section 125(2)(d) of the MFMA. Furthermore, due to limitations placed on my audit of expenditure, I was also unable to confirm the completeness of fruitless and wasteful expenditure disclosed in note 26 to the financial statements.

Cash and cash equivalents and bank overdraft

19. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation, existence, completeness of and the rights and obligations pertaining to cash and cash equivalents and bank overdraft amounting to R1 338 427 (2010: R925 185) and R1 753 545 (2010: R1 263 847) respectively disclosed in the statement of financial position, due to the following:
 - a) The municipality did not provide me with sufficient appropriate evidence to support an irreconcilable difference of R3 142 719 between the general ledger and the financial statements. Consequently, I was unable to confirm the valuation, existence, completeness of and the rights to cash and cash equivalents. Inadequate

record management system of the municipality did not permit alternative procedures to be performed.

- b) The municipality did not provide me with bank statements and reconciliations to support the bank overdraft of R1 753 545. Consequently, I was unable to confirm the valuation, existence, completeness of and the obligations pertaining to the bank overdraft. Inadequate record management system of the municipality did not permit alternative procedures to be performed.

Going concern

- 20. According to the Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*, an assessment of an entity's ability to continue as a going concern shall be made when preparing the financial statements. According to note 1.3 to the financial statements, the financial statements had been prepared on the assumption that the municipality would continue as a going concern for the next 12 months; however, management could not provide us with supporting documentations indicating that a formal assessment of the entity's ability to continue as going concern had been performed in terms of section 77(2) of the MFMA.

Contingent liabilities

- 21. I was unable to confirm the completeness of and obligations pertaining to the contingent liability because the legal representation of the municipality was not confirmed. Deficiencies in the record management system of the municipality did not permit alternative procedures to be performed.

Accumulated surplus

- 22. The municipality did not provide me with sufficient appropriate evidence to support journals amounting to R150 558 524 relating to accumulated surplus. Consequently, I was unable to confirm the existence, valuation, completeness of and rights pertaining to accumulated surplus. Inadequate record management system of the municipality did not permit alternative procedures to be performed.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

- 23. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 30 June 2011 in the financial statements the municipality at, and for the year ended, 30 June 2010.

Material under spending of conditional grant

- 24. As disclosed in note 11 of the financial statements, the municipality has materially underspent the budget on municipal infrastructure grants to the amount of R6 459 914. As a consequence, the municipality has not achieved its objectives of providing infrastructure for service delivery.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary information

25. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on non-compliance with laws and regulations applicable to the municipality

Predetermined objectives

26. I could not conduct the audit of performance against predetermined objectives as Naledi local municipality had not submitted the annual performance report, as required by section 46(1) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Compliance with laws and regulations

Strategic planning and performance management

27. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality as required by section 25 of the MSA.
28. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
29. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
30. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.

Budget

31. The mayor did not submit all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
32. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.
34. The mayor did not submit a written explanation to the council setting out the reasons for the delay in tabling the 2009-10 annual report in council, as required by section 127(3) of the MFMA.
35. The accounting officer did not make the 2009-10 annual report public immediately after the annual report was tabled in the council, as required by section 127(5) of the MFMA.
36. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
37. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Audit committees

38. The audit committee did not function as required by section 166 of the MFMA, in that:
 - It did not advise the council, the accounting officer and the management staff of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation.
 - it did not respond to the council on any issues raised by the Auditor-General in the audit report.
39. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
40. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a) of the MFMA.
41. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.
42. The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:
 - Meet at least twice during the financial year

- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

43. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

Human resource management and compensation

44. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.
45. The municipal manager did not sign an annual performance agreement for the year under review, as required by sections 57(1) (b) and 57(2) (a) of the MSA.

Expenditure management

46. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
47. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred, accounted for creditors of the municipality and accounted for payments made by the municipality, as required by section 65(2)(b) of the MFMA.
48. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
49. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

Transfer and conditional grants

50. The municipality did not always submit monthly reports to the transferring national officer, the National Treasury and the provincial treasury on spending and financial performance in respect of the allocations received for municipal infrastructure grant, financial management grant, municipal systems improvement grant and the Free State treasury grant, as required by section 11(2)(b) of the DoRA and section 71(5) of the MFMA.

Revenue management

- 51. Sufficient audit evidence could not be obtained that interest was charged on all arrear accounts as required by section 64(2)(g) of the MFMA.
- 52. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.
- 53. The council did not implement a tariff policy on the levying of fees for municipal services provided by the municipality, contrary to section 74(1) of the MSA.
- 54. The council did not adopt a policy on the levying of rates on ratable property within the municipality as required by section 3(1) of the Property Rates Act.
- 55. A credit control and debt collection policy was not maintained and implemented as required by section 96(b) of the MSA.
- 56. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Procurement and contract management

- 57. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, contrary to SCM regulation 17(a) & (c).
- 58. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
- 59. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as per the requirements of SCM regulations 19(a) and 36(1).
- 60. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per the requirements of SCM regulation 27(2)(a).
- 61. Sufficient appropriate audit evidence could not be obtained that awards were made to providers based on criteria that were similar to those stipulated in the original bid documents and/or were stipulated in the original bid documents, as per the requirements of SCM regulations 21(b) and 28(1).
- 62. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).
- 63. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).

64. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as per the requirements of SCM regulation 28(2)
65. Sufficient appropriate audit evidence could not be obtained that final awards and/or recommendation of awards to the accounting officer were made by an adjudication committee constituted as per the requirements SCM regulation 29(2).
66. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters had been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.
67. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, contrary to SCM regulation 13(c).
68. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
69. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers that scored the highest points in the evaluation process, as per the requirements of section 2(1)(f) of Preferential Procurement Policy Framework Act.
70. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
71. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered and qualified for the contract in accordance with the prescripts of the Construction Industry Development Board.
72. The municipality did not implement an SCM policy as required by section 111 of the MFMA.
73. Sufficient audit evidence could not be obtained that awards were not made to providers who are persons in service of the municipality and/or whose directors/ principal shareholders are persons in service of the municipality in compliance with SCM regulation 44.
74. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year, as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Asset management

75. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
76. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets, including an asset register, as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

• Leadership

The accounting officer did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures and for the purpose of taking corrective actions. This was mainly due to vacancies at senior management.

The occurrence of material irregular expenditure during the year under review indicates that integrity and ethical values were not developed and understood and did not set the standard for sound corporate governance.

The previous accounting officer did not take appropriate action to address the lack of discipline in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation. This, in turn, resulted in irregular expenditure.

• Financial and performance management

Finance staff did not have a good understanding of the South African Standards of Generally Recognised Accounting Practice and the municipality did not have sufficient individuals competent in financial reporting and related matters.

The finance section was insufficiently skilled to ensure that the daily financial activities are fully and correctly recorded in the records of the municipality and reconciliations are prepared and reviewed. Management did not ensure that adequate controls were in place to detect and correct errors in the financial records, as a result of this and a lack of oversight, the following deficiencies, among others, were noted:

- (a) the amounts disclosed in the financial statements, general ledger and sub-ledgers differed.
- (b) documents supporting amounts disclosed in the financial statements were not available.
- (c) matters reported in the prior report were not corrected
- (d) requested information was not available and supplied without significant delay.

- **Governance**

The municipality has not undertaken a risk assessment to assess any risks of fraud and has consequently not developed a fraud prevention plan, as required by the MFMA.

Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations

The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence